



Internal Revenue Service Criminal Investigation

Tax Fraud Alert

Abusive Tax Schemes

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Overview

IRS Keyword: Fraud

Fiscal Year 2004
[Text Only](#) .htm

Since the mid-1990s, the IRS has witnessed a proliferation of abusive tax schemes, particularly those with offshore components. Originally those schemes took the structure of abusive domestic and foreign trust arrangements. However, abusive schemes are evolving into sophisticated arrangements that take advantage of the financial secrecy laws of some foreign jurisdictions and the availability of credit/debit cards issued from offshore financial institutions.

IRS Criminal Investigation (CI) has developed a nationally coordinated program to combat these abusive tax schemes. CI's primary focus is on the identification and investigation of the tax scheme promoters as well as those who play a substantial or integral role in facilitating, aiding, assisting, or furthering the abusive tax scheme (e.g., accountants, lawyers). Secondly, but equally important, is the investigation of investors who knowingly participate in abusive tax schemes.

What is an Abusive Tax Scheme?

The Abusive Tax Schemes program encompasses violations of the Internal Revenue Code (IRC) and related statutes where multiple flow-through entities are used as an integral part of the taxpayer's scheme to evade taxes. These schemes are characterized by the use of trusts, Limited Liability Companies (LLCs), Limited Liability Partnerships (LLPs), International Business Companies (IBCs), foreign financial accounts, offshore credit/debit cards and other similar instruments. The schemes are usually complex involving multi-layer transactions for the purpose of concealing the true nature and ownership of the taxable income and/or assets.

Form over substance are the most important words to remember before buying into any arrangements that promise to "eliminate" or "substantially reduce" your tax liability. The promoters of abusive tax schemes often employ financial instruments such as trusts in their schemes. However, the instruments are used for improper purposes including the facilitation of tax evasion.

What are some of the Most Common Abusive Tax Schemes?

Tax evasion using foreign jurisdictions is accomplished using many different methods. Some can be as simple as taking unreported cash receipts and personally traveling to a tax haven country and depositing the cash into a bank account. Others are more elaborate involving numerous domestic and foreign trusts, partnerships, nominees, etc. The following schemes are not all-inclusive, but just a sample of abusive tax schemes.

Abusive Foreign Trust Schemes: The foreign trust schemes usually start off as a series of domestic trusts layered upon one another. This set up is used to give the appearance that the taxpayer has turned his/her business and assets over to a trust and is no longer in control of the business or its assets. Once transferred to the domestic trust, the income and expenses are passed to one or more foreign trusts, typically in tax haven countries.

As an example, a taxpayer's business is split into two trusts. One trust would be the business trust that is in charge of the daily operations. The other trust is an equipment trust formed to hold the business's equipment that is leased back to the business trust at inflated rates to nullify any income reported on the business trust tax return (Form 1041). Next the income from the equipment trust is distributed to foreign

trust-one, again, which nullifies any tax due on the equipment trust tax return. Foreign trust-one then distributes all or most of its income to foreign trust-two. Since all of foreign trust-two's income is foreign based there is no filing requirement.

Once the assets are in foreign trust-two, a bank account is opened either under the trust name or an International Business Corporation (IBC). The trust documentation and business records of this scheme all make it appear that the taxpayer is no longer in control of his/her business or its assets. The reality is that nothing ever changed. The taxpayer still exercises full control over his/her business and assets. There can be many different variations to the scheme.

International Business Corporations (IBC): The taxpayer establishes an IBC with the exact name as that of his/her business. The IBC also has a bank account in the foreign country. As the taxpayer receives checks from customers, he sends them to the bank in the foreign country. The foreign bank then uses its correspondent account in the to process the checks so that it never would appear to the customer, upon reviewing the canceled check that the payment was sent offshore. Once the checks clear, the taxpayer's IBC account is credited for the check payments. Here the taxpayer has, again, transferred the unreported income offshore to a tax haven jurisdiction.

False Billing Schemes: A taxpayer sets up an International Business Corporation (IBC) in a tax haven country with a nominee as the owner (usually the promoter). A bank account is then opened under the IBC. On the bank's records the taxpayer would be listed as a signatory on the account. The promoter then issues invoices to the taxpayer's business for goods allegedly purchased by the taxpayer. The taxpayer then sends payment to the IBC that gets deposited into the joint account held by the IBC and taxpayer. The taxpayer takes a business deduction for the payment to the IBC thereby reducing his/her taxable income and has safely placed the unreported income into the foreign bank account.

How Does the Taxpayer Access the Funds in Offshore Accounts?

Although the unreported funds sitting in the offshore bank account are earning interest or being used for investment purposes, most of the time the taxpayer wants to have access to the money. There are several methods used to get the funds back to the taxpayer, but the following are the most common.

Fraudulent Loans: The taxpayer's International Business Corporation (IBC) will make a loan to the taxpayer. The funds are wire transferred back to the taxpayer's U.S. bank account. Since these wired funds are allegedly loans they are not taxable. Many times ownership of the IBC is through bearer shares so it is very difficult to prove that the loan is a complete sham. Further adding to the difficulty is the fact that the promoters provide their clients with loan documents to make the transaction appear legitimate.

Credit/Debit Card: One of the most popular methods in recent years has been use of the bankcard to access offshore funds. Once the foreign bank account is established, the taxpayer is issued a bank card. The taxpayer can use the bankcard in the to withdraw cash and to pay for everyday expenses.

In Partnership - IRS Criminal and Civil Enforcement and Department of Justice - Abusive Tax Schemes

The IRS criminal and civil enforcement divisions work with the Department of Justice, Tax Division to shut down these abusive schemes as quickly as possible in an effort to protect taxpayers from potential additional financial harm. Parallel civil and criminal investigations are an effective and aggressive IRS approach that halts these schemes quickly and permanently. A civil injunction against the promoter stops the scheme and prevents additional 'clients' from investing. In addition, CI shares abusive tax scheme investor lists with the civil operating divisions to ensure investor tax returns are considered for examination (audit).

The IRS civil enforcement divisions have developed [tools to educate the public about abusive tax avoidance transactions](#) and have issued several [consumer alerts](#).

Civil and Criminal Penalties

Investors of abusive tax schemes that improperly evade tax are still liable for taxes, interest, and civil penalties. Violations of the Internal Revenue Code with the intent to evade income taxes may result in a civil fraud penalty or criminal prosecution. Civil fraud can include a penalty of up to 75% of the underpayment of tax attributable to fraud, in addition to the taxes owed. Criminal convictions of promoters and investors may result in fines up to \$250,000 and up to five years in prison.

Statistical Data

How to Interpret Criminal Investigation Data

Since actions on a specific investigation may cross fiscal years, the data shown in cases initiated may not always represent the same universe of cases shown in other actions within the same fiscal year.

The following statistics represent IRS Criminal Investigation's investigative efforts involving promoters, clients and other individuals involved in abusive trust schemes for Fiscal Years 2002 and 2003. The statistics for Fiscal year 2004 will be recorded under the new Abusive Tax Schemes program area, which includes abusive trust schemes.

	Abusive Tax Schemes FY 2004	Trust Schemes FY 2003	Trust Schemes FY 2002
Investigations Initiated	131	79	108
Prosecution Recommendations	127	80	55
Indictments/Informations	82	73	44
Sentenced	45	43	34
Incarceration Rate*	73.3%	79.1%	88.2%
Avg. Months to Serve	36	47	28

*Incarceration may include prison time, home confinement, electronic monitoring, or a combination thereof.

Examples of Abusive Tax Scheme Investigations

The following examples of abusive tax schemes fraud investigations are excerpts from public record documents on file in the courts in the judicial district in which the cases were prosecuted.

Michigan Couple Sentenced for Tax Fraud

On September 27, 2004, in Grand Rapids, MI, Andrew Stuart Ouwenga and Karen Ann Ouwenga were sentenced following a May 26, 2004, jury conviction on several tax-related felony offenses. Andrew Ouwenga received 60 months imprisonment and Karen Ouwenga received 51 months imprisonment, which are each followed by two years' supervised release. They must also cooperate with the Internal Revenue Service, file back tax returns and make arrangements to pay all taxes due and owing, along with any interest and penalties. They must also pay court cost of \$5,016. The Ouwengas were convicted of conspiracy to defraud the United States by impeding and obstructing the lawful functions of the Internal Revenue Service, evading their 1997 federal income tax, and two counts of willfully and unlawfully disobeying a grand jury subpoena. In addition, Andrew Ouwenga was also found guilty on three counts of

tax evasion involving his 1998, 1999, and 2000 tax years. The Ouwengas' accountant prepared their 1994 federal income tax return, which claimed more than \$75,000 in income, however, the defendants instead filed a frivolous tax return claiming they had no income and requested a tax refund of their 1994 withholdings of more than \$10,000. Andrew Ouwenga informed his accountant that he would not file tax returns or pay income taxes because "the Sixteenth Amendment was never ratified." Despite gross deposits of over \$6.3 million and gross business receipts of \$1.7 million into their bank accounts, the Ouwengas failed to file their tax returns. From 1993 through 1999, the Ouwengas created at least nine sham trusts, which enabled them to conduct their personal and business affairs while evading their income tax obligation.

Attorney Pleads Guilty for Role in Offshore Tax Evasion Schemes

On September 17, 2004, in San Diego, CA, B. Roland Frasier, an attorney for a prominent San Diego ophthalmologist, Dr. Glenn Kawesch, pleaded guilty to tax evasion, filing false returns, and money laundering. Frasier admitted that he transferred \$1.25 million of Dr. Kawesch's profits from his medical practice to an offshore account at the Bank of Nevis to avoid paying incomes taxes. Frasier also admitted he underreported \$3.3 million of his own income for the tax years 1997 through 2001, which resulted in a tax loss of \$934,000. In addition, Frasier admitted he entered into a series of sham agreements involving a business he helped take public. He did not disclose to the company's president about his ownership of a corporation in Nevis that received \$300,000 and 7 million shares. Frasier had telemarketers sell more than 1.3 million of the shares which netted more than \$1 million.

Consultant Used Abusive Trust Arrangements to Hide Income

On September 16, 2004, in Grand Rapids, MI, John F. Napieralski was sentenced to 30 months in prison to be followed by 2 years supervised release and ordered to pay a fine of \$5,000. Additionally, Napieralski was ordered to cooperate with the IRS in filing all back tax returns and paying all taxes due and owing, along with any interest and penalties.

On June 17, 2004, Napieralski pleaded guilty to four counts of tax evasion for the tax years 1997 through 2000. He admitted that he created a sham trust called, "The Educational Systems Trust" (T.E.S.T.) and instructed payments, from his consulting services to Sto-Ex, Inc., to be made payable to T.E.S.T. During 1997 through 2003, more than \$950,000 was deposited into T.E.S.T.'s bank account, with more than \$600,000 in income coming from Sto-Ex, Inc. Napieralski admitted that he willfully attempted to evade and defeat a substantial portion of his income tax due and owing by failing to file tax returns reporting his business gross income received from Sto-Ex, Inc., coupled with affirmative acts of evasion.

Former Owner of California Dietary Supplement Company Sentenced in Federal Fraud Conspiracy

On September 13, 2004, in Los Angeles, CA, Almon Glenn Braswell was sentenced to 18 months in prison and ordered to pay \$10,455,367 in back taxes, interest, and penalties. Braswell pleaded guilty on March 2, 2004, to conspiring to evade millions of dollars in corporate income taxes during a scheme that overstated the business expenses incurred by one of his companies, Gero Vita International, Inc. on its federal tax returns. Braswell acknowledged that his scheme caused Gero Vita to underpay its taxes by \$4,468,460.

Accountant Sentenced to 37-Month Prison Term for Mail Fraud and Tax Evasion

On August 23, 2004, in Miami, FL, Thomas Sewell, a certified public accountant, was sentenced to 37 months in prison, followed by three years supervised release, and ordered to pay restitution in excess of \$7 million to the victims. Sewell previously pleaded guilty to conspiracy to commit mail fraud and for filing false tax returns. Sewell was charged in connection with his participation in an investment fraud scheme, as a result of which investors lost over \$7 million. Sewell associated himself with the scheme by recruiting investors from among his accounting practice clientele. Sewell falsely advised his clients that their investments would be safe and that he was personally monitoring the funds. Significantly, Sewell

failed to advise his clients that he was receiving commissions on the investments that he brought in and failed to disclose on his 1997 and 1998 federal income tax returns that he had received additional income of more than \$140,000 from his participation in the scheme.

Four-Week Trial Ends in Five Convictions in Tax Evasion Case

On August 20, 2004, in Salt Lake City, UT, after a four-week trial, a federal jury convicted five Utahns of conspiring to defraud the United States through the establishment of an abusive trust scheme involving offshore entities marketed through the name of Anglo-American International, Provo, Utah. Convicted of conspiracy were Ozy J. Neeley, Paul J. Young, Kevin J. Crockett, Chad L. Merica, and Robert F. Dodenbeir. Crockett was also convicted of two counts of aiding and assisting in the filing of false income tax returns. Eight people have been convicted of participating in this conspiracy. The leader of the Anglo-American entities, Kirk Koskella is currently serving a 10-year sentence in federal prison. Two other individuals, Dennis Shaw and Stacie Bateman are awaiting sentencing following their guilty pleas to conspiracy at an earlier date.

Three Sentenced for Using Sham Trusts and Corporations to Hide Business Profits from IRS

On July 20, 2004 in Akron, OH, Gary Harris was sentenced to 151 months in prison to be followed by 3 years supervised release and fined \$95,000. On June 23, 2004, Michael Kotula was sentenced to 70 months in prison to be followed by 3 years supervised release. In addition, Kotula was ordered to pay a \$100,000 fine, the costs of prosecution, and \$82,806.83 in restitution to the Internal Revenue Service. Also sentenced was Tamara Schwentker Harris receiving 15 months imprisonment to be followed by 2 years supervised release, and ordered to pay \$17,054 in restitution to the Internal Revenue Service. In March 2004, after a four-week trial, the jury found all three defendants guilty of conspiring to defraud the United States. In addition, the jury convicted Harris and Kotula on three counts and one count of income tax evasion, respectively. At trial, the evidence proved the defendants used a maze of trusts and corporations to try to hide approximately \$18 million in income generated by various businesses they controlled. Between January 1, 1994 and July 8, 2003, they paid little or no taxes on the income earned. Nonetheless Mr. Harris lived lavishly, acquired several homes, a jet way for his ranch in Conneaut, and an antique Mercedes sports car which he claimed was worth \$250,000. Mr. Harris has been in federal custody since his arrest in July 2003. He had previously been convicted of tax evasion for tax years 1987, 1989, and 1990. In addition, between 1998 and 2002, when Mr. Harris was in federal prison after convictions for racketeering and income tax evasion, Mr. Kotula and Ms. Schwentker Harris kept Mr. Harris' businesses running and continued to operate this illegal conspiracy to conceal income from the IRS.

Co-Founder of Global Prosperity Pleads Guilty to Tax Fraud

On July 15, 2004, in Seattle, WA, Daniel Andersen, co-founder of Global Prosperity, pleaded guilty to tax charges of conspiracy to defraud the United States by impeding the Internal Revenue Service. In a statement of facts submitted to the court, Andersen admitted that he conspired with others to defraud the IRS by utilizing a system of bogus trusts, nominee entities and related domestic and offshore bank accounts to conceal millions of dollars in income generated from the sale of Global Prosperity products. Andersen admitted that he and his accomplices maintained the anonymity of Global Prosperity by changing the name of the business, using mail drops to conceal its location, conducting financial transactions in cash, and discouraging the use of Social Security numbers to escape notice by the IRS. Also, Andersen admitted that he failed to file individual income tax, corporate income tax, trust income tax and partnership returns; and declarations of a financial interest in, or signature authority over, a foreign bank account, as required by law. Finally, Andersen admitted that his actions caused a tax loss of between \$2.5 and \$7 million.

Nevada Author Pleads Guilty to Promoting Tax Fraud Schemes

On July 14, 2004, in Reno, NV, Lawrence Turpen pleaded guilty to conspiracy to defraud the IRS. In his plea agreement, Turpen admitted that he became a full-time financial consultant specializing in

international investing and tax planning. He solicited clients at speaking engagements; through his 1990 book, "Offshore Options for Small Business;" and through a website advertising his products and services. Turpen advised clients to conceal their personal and domestic business income in offshore entities located in countries that did not provide financial information to the United States. He also helped his clients structure sham business transactions to make it appear as if their personal or domestic business income interested in offshore entities and to use nominees or administrators to further conceal the true ownership and control. Turpen helped his clients repatriate the untaxed money by advising them to create fictitious loans from their offshore entities to pay for personal purchases, including cars and homes, as well as having the offshore entities pay for personal vacations or give untaxed "educational grants" to their children.

Promoter of Sham Trusts Pleads Guilty to Tax Fraud Charges in Arizona

On June 7, 2004, in Phoenix, AZ, Mark D. Poseley pleaded guilty to conspiracy to defraud the Internal Revenue Service for his role in marketing bogus trusts through an organization known as Innovative Financial Consultants (IFC). Poseley also pleaded guilty to willfully failing to file his 2000 income tax return, despite having earned substantial income from his work with IFC. Poseley admitted he worked as an IFC salesman and sold both onshore and offshore trust packages. He admitted that he falsely represented to taxpayers that they could lawfully avoid paying income taxes by placing their income and assets into trusts, despite remaining as the trusts' "managing directors." Poseley admitted he ignored written publications from the IRS and other sources which directly contradicted the false claims he made.

Pinellas County Man Sentenced for Tax Evasion Scheme

On May 7, 2004, in Tampa, FL, William Tiner was sentenced to five years' in prison, to be followed by three years supervised release. Tiner was also ordered to pay restitution to the Internal Revenue Service of \$928,864 and imposed a fine of \$25,000. Tiner was convicted of four counts of income tax evasion and three counts of filing false corporate income tax returns. Tiner purchased the AEGIS trust system promoted out of Chicago, IL. He then used a series of domestic and foreign companies to divert and conceal corporate profits in order to evade the payment of taxes on those profits. As a result of these actions, Tiner failed to report in excess of \$2.5 million in income between 1996 and 1999 and thus evaded the payment of over \$900,000 in income taxes.

Associate of "We the People" and Six Individuals were Convicted of Promoting and Selling Bogus Pure Trusts

On May 3, 2004, in Los Angeles, CA, seven individuals associated with a tax fraud group known as "We the People" were convicted on various federal charges related to the promotion of bogus trust arrangements to eliminate taxes. The defendants were Lynne Meredith, Gayle Bybee, Gregory Paul Karl, Teresa Manharth Giordano, Willie Watts, Betty Erickson, and Nora Moore. The jury convicted all seven defendants of various counts in the indictment including failure to file income tax returns, conspiracy, and mail fraud. During the 13-week trial, evidence showed that the defendants assisted taxpayers in forming phony "pure trusts" to conceal income and assets from the government. Also, the defendants falsely told their customers that paying taxes was "voluntary" and that they should file a W-4 or W-8 form with their employer claiming to be exempt from federal tax withholding and encouraged taxpayers to send protest correspondence to the IRS with the purpose of impeding and obstructing the IRS from collecting these taxpayer's taxes.

Trial evidence also illustrated that beginning in 1991 and continuing until April 2002, Meredith conducted seminars at which she sold books and bogus "pure trusts" to people with the purpose of leading them to believe they could legally shield income and assets from taxation. Meredith also wrote books including "How to Cook a Vulture" and "Vultures in Eagle's Clothing," in which she falsely claimed that individuals could lawfully stop paying income taxes, stop their employer from withholding income taxes, and refuse to produce financial books and records to the IRS. The books contained examples of frivolous tax returns and protest letters. Meredith earned more than \$8.5 million as a result of the scheme and, as with the other defendants, did not file a Federal income tax return during these years.

Tax Cheaters Headed to Prison and will Pay Government \$570,000

On April 1, 2004, Helen M. Smith and her brother Leroy Sbrusch were sentenced to serve two years in federal prison for tax evasion, failure to file returns, and conspiracy to defraud the IRS. On Wednesday, March 24, codefendant Ken Smith was sentenced to serve 15 months for his role in the conspiracy. All three defendants were convicted of conspiracy to defraud the IRS. Helen Smith and Leroy Sbrusch were also each convicted of failure to file 1996, 1997, and 1998 income tax returns, and also of evading Helen Smith's 1998 income taxes. Sbrusch was also convicted of one count of structuring financial transactions to avoid currency transaction reporting requirements in 1998. Helen Smith and Leroy Sbrusch were ordered to pay over \$485,000 in restitution to the United States for back taxes, fined each of them \$25,000, and ordered them to pay over \$35,000 in costs of prosecution. After serving their prison terms, each defendant will be on supervised release for three years, and will be required to file tax returns and cooperate with IRS examinations of their tax liability.

The evidence at trial showed that Helen Smith owned two laundromats. Her gross income was over \$440,000 for 1996, over \$540,000 for 1997, and over \$700,000 for 1998. Despite this income, she failed to file a tax return for any of these years, or any year since. Neither Helen Smith nor Leroy Sbrusch had in fact filed a return since 1990. After the sale of Wasilla Wash Day for \$700,000 in April 1998, the evidence showed that the defendants engaged in a complicated scheme to launder the profits to evade collection by the IRS. The three defendants used various means to conceal the proceeds, including the purchase of \$45,000 in gold and silver under a third-party name, the purchase of land in Texas under false names, and simply having large-denomination cashier's checks issued to nonexistent entities and keeping them in their office for six months to a year. Sbrusch's structuring conviction arose from his withdrawal of \$8,000 cash on April 15, 1998, followed by withdrawals of \$8,500 on April 17 and \$7,300 on April 18. Sbrusch testified that he and Helen Smith attended seminars and purchased books offered by Southern California tax activist Lynne Meredith and her organization, "We the People." Sbrusch admitted purchasing "trusts" from Meredith that were used to hold assets purchased with the proceeds of the Wasilla Wash Day sale.

Provo Man Sentenced for Tax Evasion and Mail Fraud

On February 26, 2004, in Salt Lake City, UT, Albert Earl Carter was sentenced to 51 months in prison, followed by three years supervised release and ordered to pay \$1,962,371 in restitution. Carter was also ordered to file his 1996 and 1997 tax returns and establish a payment schedule for those liabilities within 30 days. Carter plead guilty to tax evasion and mail fraud for his role in a scheme he devised to defraud investors of their money through an investment program often referred to as a "doubling program" and his efforts to evade paying income tax for the 1996 tax year. Carter not only failed to file his tax return, but also committed acts of evasion, including the use of a VISA card account from an offshore bank to pay personal expenses, by the transfer of money to the VISA card account, and by the transfer of records reflecting income and expenses offshore. Between 1995 and 2000, Carter was "managing director" of Allied International Resources, (AIR) and represented that the company had offices in Utah and Antigua. During this time, Carter and his associates solicited approximately \$3,000,000 from investors for the "doubling program." Carter represented that the investment was for a 12-month term, was protected by a guarantee against loss for 108 percent of the investment, and the guarantee was backed by a trust fund of over five times the amount AIR was obligated to pay out. The letter represented, that an investor could expect 200 percent of the investment at the annual anniversary date. Carter admitted he did not inform investors that investor funds brought in through the investor program would be used to pay off other investors — essentially a Ponzi scheme — and also used to pay the personal expenses of Carter and operating expenses of AIR.

Sellers of Bogus Tax Advice Program Plead Guilty to Tax Charges

On February 12, 2004, in Washington, DC, the Department of Justice announced that John J. Rizzo and his wife Carol A. Rizzo, residents of Phoenix, Arizona, pleaded guilty to charges of conspiracy and willfully failing to file their income tax return. Rizzo also pleaded guilty to willfully aiding and assisting in

the preparation of a false income tax return and perjury before the grand jury. The defendants admitted, in their plea agreements that from 1999 to 2001, Mr. Rizzo was a prominent vendor with the Institute of Global Prosperity (IGP). At seminars hosted by IGP, Rizzo promoted the Millennium 2000 Reliance Defense Program (M2K) package to thousands of people at offshore seminars and resulted in more than \$4 million in sales. The Rizzos also admitted they provided materials and documentation that purported to prove, among other things, that one could lawfully stop filing income tax returns and cease having income taxes withheld from personal wages based upon the long-rejected notion that the Sixteenth Amendment to the Constitution had not been legally ratified. They further admitted they concealed the income earned from the sales of M2K packages during the period 1999 through 2002, by using a variety of dishonest and deceitful means, including the use of offshore bank accounts and third-party merchant accounts to conduct credit card sales.

Economic Development Commission Beneficiary Partner Pleads Guilty to Tax Evasion

On February 12, 2004, in Christiansted, St. Croix, Gary J. Payne pleaded guilty to a two count Information charging him with attempt to evade and defeat tax for calendar years 2000 and 2001. Beginning in 2000, Payne participated in a sophisticated scheme designed to disguise his legitimately earned United States income as "wages and partnership distributions" paid to him by a Virgin Islands business that had been issued an Industrial Development Program certificate which granted certain industrial development benefits, including a 90% reduction on individual income tax liability (the Tax Credit). The scheme created the appearance that his income was from a Virgin Islands source or effectively connected to a Virgin Islands business and thus eligible for the Tax Credit. As a result of the scheme, Payne filed his 2000 and 2001 income tax returns with the Virgin Islands Bureau of Internal Revenue claiming falsely to be a Virgin Islands resident and claiming Tax Credits of \$171,364 and \$179,488, respectively. His reported tax liability before the credits totaled \$399,512 for both years. As a result of the credits, Payne only paid \$48,660 of his reported liability to the Virgin Islands and paid no income taxes to the United States as he was required to.

Jerome Schneider Pleads Guilty

On February 11, 2004, in San Francisco, CA, Jerome Schneider pled guilty to conspiracy to defraud the Internal Revenue Service in violation of 18 U.S.C. § 371. Schneider and his co-defendant, Eric Witmeyer, were indicted by a Federal Grand Jury in San Francisco on December 19, 2002. They were charged with conspiracy and mail and wire fraud in connection with the marketing and sales to U.S. taxpayers of offshore banks and/or corporations. The defendants then caused those entities to be decontrolled which was a process used by the defendants to attempt to conceal the U.S. taxpayer's ownership in the offshore bank or corporation, in order to evade IRS reporting requirements for taxpayers having an interest in foreign accounts and to evade the payment of tax on income transferred to and/or earned by the offshore bank accounts. Witmeyer, an attorney, pled guilty to the conspiracy count on January 23, 2003, and agreed to co-operate with the government against Schneider. The sentencing of Schneider has been scheduled for September 10, 2004.

CPA Promoted Abusive Trusts in Tax Evasion Scheme

On February 6, 2004, in Tampa, Florida, Michael J. Maricle, a Certified Public Accountant, was sentenced to 30 months in prison. Maricle pleaded guilty on March 5, 2003, to two counts of aiding in the preparation and filing of false income tax returns. Maricle assisted two different clients in filing false income tax returns which disguised large sums of income through the use of the AEGIS system, a scheme which entails the use of abusive trusts in ordered to hide income and evade the payment of taxes. In addition to jail time, Maricle was ordered to assist the IRS in the computation of all taxes due and owing on the part of his two clients.

Retired Pilot Sentenced to Prison

On January 20, 2004, in Rockford, IL, Ralph Waldo Kough, a retired commercial pilot, was sentenced to 20 months in prison followed by three years supervised release for evading more than \$260,000 in

federal income taxes. Kough admitted that he did not file tax returns and did not pay any federal income taxes on his pension income for the years 1995 through 2002. In addition, during 1998 Kough received a lump sum distribution from his 401(k) plan of \$583,425.76. Kough admitted that he attempted to conceal his 401(k) distribution from the IRS by 1) depositing the \$583,425.76 into four separate bank accounts in three separate states; 2) providing those banks with IRS Forms W-8 which falsely stated he was not a United States Citizen; and 3) withdrawing most of the funds from those accounts in cash amounts \$9000 and \$9900.

Promoter of Abusive Trusts Scheme Pleads Guilty

On December 12, 2003, in Phoenix, Arizona, John F. Poseley pleaded guilty to his role in a conspiracy to defraud the U.S. Government by marketing bogus trusts through an organization known as Innovative Financial Consultants. According to court documents, the conspiracy charge alleged that from 1995 through 2003, Innovative Financial Consultants, based in Tempe, Arizona, created and sold over 3,000 bogus "onshore" and "offshore" trust packages for financial gain by falsely claiming that taxpayers could avoid paying income taxes by placing their income and assets into such a trust. Poseley admitted that he had falsely represented to taxpayers that they could avoid paying income taxes by placing assets into the trusts while retaining use, control, and dominion of those assets.

Man Sentenced for Evading Over \$235,000 in Taxes

On December 3, 2003, in Kansas City, Missouri, Mark A. Fronce was sentenced to 15 months in prison, ordered to pay a \$2,000 fine, and ordered to pay \$434,522 in back taxes with interest and penalties. Fronce pleaded guilty on June 26, 2003, to one count of tax evasion. By pleading guilty, Fronce admitted that he had taxable income of approximately \$565,806 in 1997 and should have paid \$235,486 in taxes. Instead, Fronce did not file a tax return and attempted to conceal his true income by diverting his income to "trust" bank accounts.

Former CPA Sentenced to 39 Months in Prison for Tax Fraud Using Abusive Trust Arrangements

On November 24, 2003, in Prescott, Arizona, Ralph N. Whistler, a certified public accountant, was sentenced to 39 months in prison for aiding and assisting in the preparation and filing of false 1995 income tax returns. Whistler was convicted on July 30, 2003, after a jury trial in Prescott, Arizona. According to evidence at trial, Whistler purchased a so-called "trust package" that purported to legally reduce his federal income tax liabilities. Whistler then modified this package which he promoted and sold to approximately 20 clients for between \$5,000 and \$10,000 per client. Clients testified that Whistler directed them to transfer business income to and through a series of bank accounts titled in the names of trusts. Whistler claimed the amounts placed in these bank accounts as deductions on the client's federal income tax returns.

Three Sacramentans Sentenced to Lengthy Prison Sentences in Tax Fraud, Investment Fraud and Money Laundering Scheme

On November 4, 2003, in Sacramento, CA, Herbert Arthur Bates, Christopher R. Bates and David Larry Smith were sentenced to lengthy prison terms after being convicted of conspiracy to defraud the United States by impairing and impeding the IRS in the assessment and collection of income taxes, conspiracy to engage in mail and wire fraud, and conspiracy to engage in money laundering. Herbert Bates, Christopher Bates, and David Larry Smith were sentenced to 136 months, 63 months and 151 months in prison, respectively. All three were also ordered to pay restitution in the amount of \$1,738,520, a criminal forfeiture of \$1,000,000, and serve 36 months of supervised release. Evidence presented at trial proved that the defendants sold a form of trust, which they called an Unincorporated Business Organization (UBO), to approximately 249 investors. The defendants charged between \$3,000 and \$7,500 for the creation of these UBO's. Herbert Bates and Smith advised clients that they could transfer all of their income and assets to the UBO, and after transferring their income and assets, the clients no longer had to file individual income tax returns nor pay federal income taxes.

Executive Sentenced to 20 Years, Ordered to Pay \$92 M in Restitution in Investment Fraud and Money Laundering Case

On October 31, 2003, in Cleveland, OH, J. Richard Jamieson was sentenced to 20 years imprisonment, ordered to serve a three-year term of supervised release, pay \$92,125,491 in restitution, and pay a Special Assessment of \$15,700. Jamieson was found guilty of federal money laundering charges and conspiracy to commit mail fraud. On January 23, 2002, J. Richard Jamieson was indicted along with 16 other individuals in connection with a scheme to defraud life insurance companies and investors throughout the United States. The indictment charged that the defendants, including Jamieson, conspired to defraud approximately 2,850 investors in viatical settlements of approximately \$105,000,000. Jamieson was also charged with laundering his profits from the fraud scheme using domestic and foreign trust entities. As a result of this trial and subsequent conviction, there is a special personal judgment against Jamieson in the amount of \$28,243,980 that was rendered by the jury in his trial and relates to the funds involved in the money-laundering scheme. Jamieson must also forfeit all the assets in over 50 domestic and foreign companies, corporations, partnerships, and trusts, which Jamieson owned and controlled. Additionally, Jamieson was ordered to forfeit his personal assets, including his million-dollar residence, his million-dollar vacation home, the contents of his investment accounts and other personal property. On October 28, 2003, Judge Katz amended his original order of forfeiture to include \$5,675,075 in other assets.

Institute of Global Prosperity Affiliate Sentenced to 21 Months

On October 10, 2003, in Seattle, WA, Laura Jean Marie Struckman, an affiliate of the Institute of Global Prosperity, was sentenced to 21 months in prison to be followed by three years supervised release. Struckman was convicted by jury on May 28, 2003, of conspiracy to structure a financial transaction. Trial evidence showed that Struckman and an unindicted co-conspirator engaged in a 14-month conspiracy from June 1997 through August 1998 to evade currency reporting requirements by making cash withdrawals of over \$960,000 in 122 separate transactions, none of which exceeded \$10,000. The evidence further established that Struckman was the co-signer on three nominee bank accounts into which she and another individual deposited over \$3.7 million, earned from IGP, during the time period of the conspiracy. Struckman faces a maximum statutory penalty of five years imprisonment and a \$250,000 fine. The Institute of Global Prosperity was an organization that encouraged its members to sell various products for profit - such as "foreign trusts," "pure trusts," as well as other reliance packages - that although touted as legal means to avoid taxes, were nothing more than tax evasion devices. The organization discontinued its operations in May 2002.

For more summaries, visit www.irs.gov and enter Keyword: Fraud.

Where Do You Report Suspected Tax Fraud Activity?

If you suspect tax fraud or know of an abusive return preparer, you should report this activity to your nearest Internal revenue service office. This information can be communicated by phone or in writing to your local IRS office. You can contact the IRS by phone at 1-800-829-0433.